



Director of
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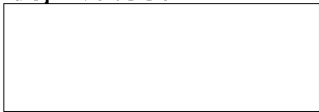
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MEXICO: De la Madrid Takes Over

President de la Madrid, in his inaugural speech yesterday, said there would be no quick solutions to economic problems, called for national unity and sacrifice, and promised to reduce inflation while protecting jobs. [REDACTED]

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De la Madrid called for two years of austerity to see Mexico through its financial crisis. He also announced a 10-point emergency program that would largely meet the IMF's conditions for granting a \$4 billion loan over the next three years. [REDACTED]

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Details of the new administration's programs to reduce inflation, protect jobs, and rebuild productive capacity will be released within the next 30 days. Although de la Madrid announced that measures would be taken to protect those most in need, he subordinated government efforts in this direction to his primary goal of restoring economic vitality. [REDACTED]

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The new cabinet is largely from the center of the ruling party. Most are technocrats who have worked their way up through the ranks of the ruling party-government structure. No cabinet posts were given to members of the party's left wing, who dominated economic decision-making during the past few months. [REDACTED]

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A few of the new ministers are longtime politicians, such as Secretary of Education Reyes Heróles, who helped design the political reforms under former President Lopez Portillo. Three cabinet selections are holdovers, including Secretary of Finance Silva Herzog. [REDACTED]

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Several important noncabinet positions will be announced later. They include the head of the Bank of Mexico, the chief of the national oil company, the president of the ruling party, and the heads of state banks and state corporations. [REDACTED]

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Comment: It is uncertain whether de la Madrid's speech will improve popular morale. His emphasis on job security and the role of business is meant to reassure labor and the private sector. [REDACTED]

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Key economic appointees are all close associates of de la Madrid. Their advocacy of market-oriented economic policies will reassure Mexico's international creditors.

[REDACTED]

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ITALY: New Government

//The new four-party government formed by Prime Minister - designate Fanfani is likely to be dissolved early next year, opening the way for a national election in the spring.// [redacted]

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//Twelve of the 28 ministers in the new cabinet are holdovers from the Spadolini government. The feuding Treasury and Finance Ministers, who brought down the last government, are both gone.// [redacted]

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//The new government reportedly is based on a personal deal between Fanfani and Socialist leader Craxi. According to the US Embassy, Fanfani has agreed to Socialist demands for a national election in return for support of his bid to replace President Pertini when the latter's term expires.// [redacted]

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//Some powerful Christian Democrats oppose the arrangement and hope the current legislature can continue through 1984. Nonetheless, they have chosen to go along rather than disavow Fanfani and risk a political impasse that would lead to an immediate election.// [redacted]

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Comment: //If the Fanfani government is paving the way for elections next spring, economic policy almost certainly will suffer. Fanfani has already had to forgo his original economic proposals--which could have slashed an additional \$10 billion from the deficit and forced workers to give up real wage increases for two years--in order to secure Socialist participation in the coalition. The budget deficit for this year is expected to be about 15 percent of GDP, and no politician deems it advisable to advocate stimulative fiscal policy for 1983.// [redacted]

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//The Bank of Italy probably will maintain its tight monetary policy. If it does, and if raw material prices remain steady, the inflation rate could decline from its 17-percent rate. Real interest rates would remain high, however, clouding the prospects for a recovery in domestic economic growth--which at most will be 1.5 percent this year.// [redacted]

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CHINA: Five-Year Plan Unveiled

China's five-year plan for 1981-85 calls for moderate growth and a continuation of Beijing's policy of encouraging trade with the West.

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Premier Zhao Ziyang on Tuesday announced the plan--the first that China has made public since the 1950s--at the National People's Congress. The full text of the plan will be made public after the Congress approves it.

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Growth targets for agriculture and for industry are set at 4 percent annually, and the targets for specific products appear consistent with the limited growth policies of the past year. Beijing expects per capita consumption to grow by 4.1 percent annually over the period, more slowly than in recent years.

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According to Zhao, total investment will slightly exceed the levels of the period 1976-80, with proportionately greater spending on plant renovation and less on new facilities. During the course of the new plan, Beijing will try to relieve energy shortages and transport bottlenecks by allocating about one-fourth of new fixed investment to energy and about one-eighth to transportation--both higher than in recent years. Outlays for education, science, and public health also are slated to rise substantially.

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Beijing foresees greater foreign investment, increased imports of technology and equipment, and continued strong growth in exports of textiles and other light industrial products. China expects its foreign trade to grow more slowly than in recent years.

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Comment: Zhao's report on the plan presages slow growth over the next three years while the government tries to sort out management problems. China's steady economic performance since 1980, however, virtually assures the plan's major growth targets will be met.

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EL SALVADOR: Government Counterattack

The Army has sent two US-trained battalions to northern La Union Department to recapture several towns and stop the advance of the insurgents. [REDACTED]

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Comment: Although this counterattack apparently has succeeded, it still leaves most of Morazan Department in guerrilla hands. The guerrillas' withdrawal from La Union may reflect their concern over mounting casualties and tenuous supply lines. The insurgents are likely to employ their forces in a stronger defense of Morazan if the Army challenges them there. [REDACTED]

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LEBANON: Assassination Attempt

Lebanese security officials are concerned about a wave of violence in Beirut as a result of the unsuccessful effort yesterday to kill Druze leader Walid Junblatt. The US Embassy reports the officials believe some of Junblatt's followers may seek revenge for the car bombing incident, which resulted in minor injuries to Junblatt. Sectarian violence also has flared again in the Shuf mountain region southeast of Beirut. [REDACTED]

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Comment: Mutual recrimination between Junblatt and Phalange leaders has intensified in recent weeks, as each has blamed the other for the fighting in the Shuf. A Phalange statement condemning the attack on Junblatt will do little to cool tempers, and heavier fighting between the two groups appears likely. [REDACTED]

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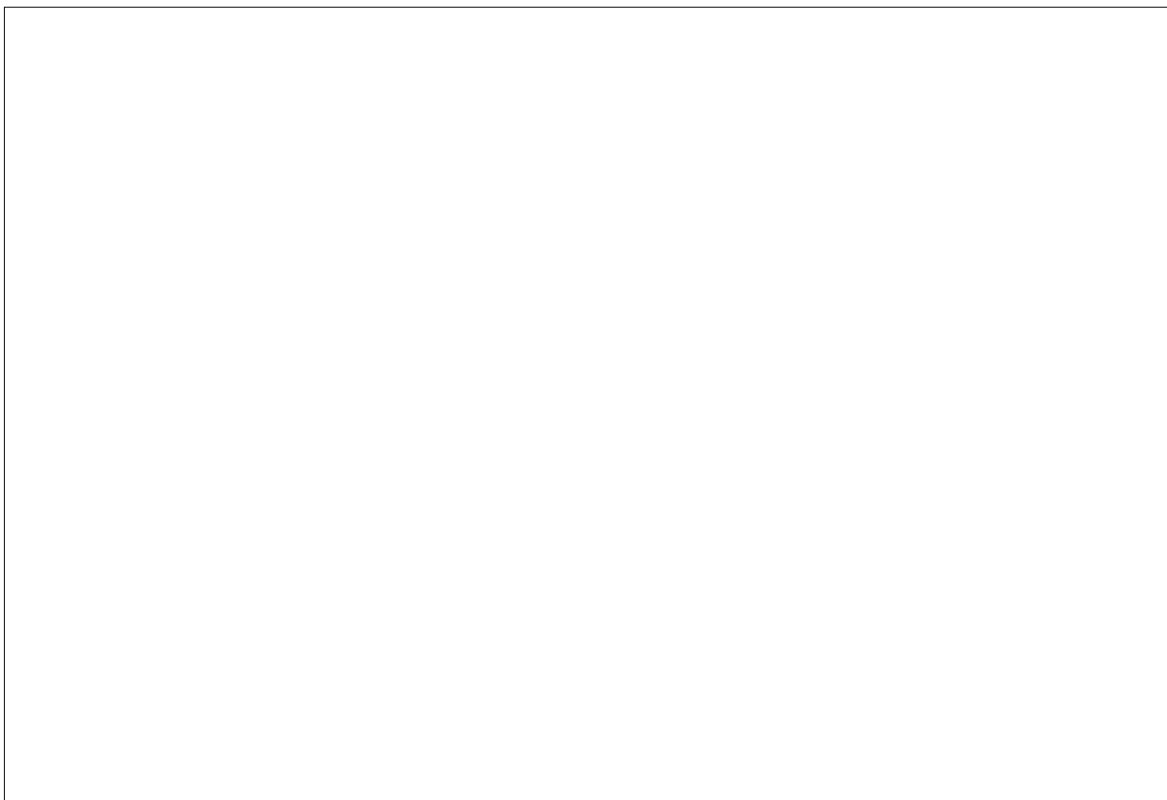
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USSR-ALBANIA: Moscow's Overtures

Pravda and other Soviet publications published lengthy articles this week commemorating the 70th anniversary of Albanian statehood and the 38th anniversary of Albania's liberation from German occupation. The articles quote recent statements by General Secretary Andropov affirming that Moscow seeks equal and mutually advantageous cooperation with any state that wants it and that the USSR wants to improve relations with all "socialist" countries.

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Comment: The Soviets have sought periodically over the past 18 years to restore relations with Albania, but as long as Albanian leader Hoxha remains, opposition to renewed ties is unlikely to diminish. Moscow made a similar gesture last year, but the new articles suggest Andropov has decided to place higher priority on the effort than his predecessor. The Soviets may hope a change of leadership in Albania may occur soon and new leaders will be more receptive.

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HUNGARY: Financial Prospects

//Several US bankers and a senior IMF official say Hungary may be too optimistic about avoiding a debt rescheduling in 1983. They suspect Budapest will be unable to meet even its minimum goal for commercial borrowings and believe its target for export growth is unrealistic. Some of the sources believe Hungary should discuss discreetly a rescheduling arrangement with Western banks early in 1983 rather than risk being caught in severe financial difficulties later in the year.//

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Comment: A rescheduling does not yet seem necessary for 1983, but Budapest needs to find a way to deal with rising debt service payments over the next three years. Although Hungary appears to have strengthened its finances somewhat in recent months, continued cutbacks in the commercial credits available to it could make it insolvent. Before discussing the rescheduling of payments on its loans from commercial banks, Hungary probably would appeal to Western governments for more help, including renewal of the emergency loans from the Bank for International Settlements.

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PAKISTAN: Opposition Leaders Arrested

The government is detaining 10 prominent leaders of the opposition Movement for the Restoration of Democracy.

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Comment: The action clearly is designed to keep the opposition quiet while President Zia is in the US next week. The Movement so far has failed to stage demonstrations planned just before Zia leaves, and Islamabad may be acting to head off a last-minute incident.

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Special Analysis

GUATEMALA: Guerrillas on the Defensive

//The government's counterinsurgency campaign has made substantial progress in containing the guerrillas, but it will not eliminate them in the foreseeable future. The formation of civilian defense units has freed the regular forces to pursue the insurgents and keep the initiative. The insurgents generally seek to avoid major battles, relying instead on hit-and-run raids and propaganda activity to discredit the government of President Rios Montt.//

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//Rios Montt is using conventional operations and civic action measures to weaken the guerrillas' support. The regular military now has more than 25,000 personnel on active duty. It continues to expand its control over territory--mostly in the Western Highlands--previously occupied by the insurgents.//

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Aggressive military patrolling and sweep operations have contributed to a pronounced decline in guerrilla operations.//

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//Eliminating the guerrillas from the highlands is hindered by their ability to seek refuge in Mexico

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The Army occasionally has pursued the insurgents across the ill-defined border, but increased tensions between Mexico and Guatemala has led the high command to prohibit such incursions for the time being.//

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Civil Defense Program

//The counterinsurgency campaign has been aided by the rapid growth of the civilian defense forces, now estimated at more than 50,000 men. They have freed government troops from static defense of population centers, thereby allowing the military greater operational flexibility. More important, the government has used the program to increase its popular support.//

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//Many civilian defense units are still poorly equipped, however, and they are bearing the brunt of guerrilla attacks intended to discourage increased Indian cooperation with the military. The Army also is concerned about insurgents infiltrating the forces. The government will fully arm only those civilian defense units whose loyalty has been proved in combat.//

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//As part of its civic action program, the Army is giving peasants supplies of food, medicine, and building materials, much of which comes from international relief organizations. This has helped to restore a degree of trust between the peasants and the Army and to erode support for the insurgents.//

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//Although government policy emphasizes treating the Indian peasants with respect to gain their support, various sources suggest civilians are being killed by both government and insurgent forces. There is no firm evidence, however, of military units' engaging in mass killings of civilians.//

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Continuing Problems

//Despite indications that the insurgents have been hurt and their support structure damaged, the military continues to face an estimated 2,000 to 3,000 full-time armed guerrillas. The guerrillas have sought to avoid large-scale battles with the Army, however, concentrating instead on propaganda and misinformation to discredit the government.

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//Rios Montt, however, may extend the mobilization until next June to maintain current military operating levels. Much will depend on the military's estimate of the success of its recent counterinsurgency efforts.//

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//Meanwhile, the military's ability to respond quickly to guerrilla activity, especially in remote areas, remains hampered by its lack of mobility and by inadequate communications. Civilian aviation and all government aircraft have been placed under the control of the Air Force in an effort to provide the military with greater mobility. Some military zones have reported a scarcity of arms and ammunition, and commanders may soon face the effects of budgetary restrictions.//

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Prospects

//The General Staff apparently is optimistic that the insurgent threat will be reduced to a level of terrorist action by the end of 1982. The insurgents, however, probably will continue to pose a military threat well into next year. If the Army continues its current rate of operations against the insurgents, it will risk straining its manpower and logistic resources.//

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//The ultimate success of the government's counter-insurgency efforts is likely to depend largely on a prolonged commitment to both military operations and civic action. The government will need continued outside assistance, particularly food for the increasing number of refugees, if it is to maintain the program and broaden its popular support.//

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